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ATM&DEBIT NEWS

Your news from ATM&Debit News for Thursday, January 24, 2002

Fed Plan Reduces Need To Collect ATM Check Deposits

Among the biggest costs for financial—institution ATM programs are the daily pickups of deposit envelopes. While ATM users enter the deposit amount on the machine's PIN pad, the deposit cannot be processed and posted until the envelope is opened to verify the amount.

But a proposed regulatory change sponsored by the Federal Reserve Board, called the Check Truncation Act, could eliminate such daily pickups and slice in half the operational cost of bank—owned ATM programs. The measure also has some bank officials abuzz over the prospect of new ATM—based revenues by offering noncustomers electronic deposits for a fee.

However, the cost of adding imaging technology may prevent many banks from Fed < 1 investing in the ATM hardware and software needed to electronify checks.

The Check Truncation Act would require banks to accept for presentment a "substitute" check created and reprinted from a digitally imaged check. A check image could then be processed by the acquiring bank electronically and sent almost instantly without having to transport the original check. Under current law, digital images of checks do not qualify as check replacements.

Federal Reserve Board Chairman Alan Greenspan submitted the proposal to the Senate Committee on Banking, Housing and Urban Affairs on Dec. 17. Greenspan's overview of the Check Truncation Act pointedly refers to significant bank savings at ATMs. "Banks might be able to reduce their infrastructure costs because their branch and ATM networks would no longer need to be tied geographically to their processing centers," the overview states.

Financial institutions are pushing for an electronic alternative to check presentment, primarily to reduce ATM and bank—branch costs, says Jack Walton, a member of the Federal Reserve Board of Governors who helped draft the Act. "Some banks and credit unions suggest they would have significant savings by capturing this

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information electronically at an ATM," says Walton.

Check imaging also would allow banks to post ATM deposits virtually in real-time, giving customers almost immediate access to deposited funds instead of holding the funds up to a day, says Walton.

It costs banks up to \$1.25 per transaction to process an ATM deposit made by their own customers, says Phil Kasper, vice president of development for NCR Corp., a Dayton, Ohio-based ATM maker. The cost could be cut to as low as 50 cents per deposit if checks digitally imaged at ATMs were acceptable for presentment, he says.

Armored car services, the largest operational cost for bank-owned ATM programs, would only have to be used to replenish cash, which is not a daily occurrence. Original checks could be picked up by non-armored car employees and delivered to the issuing bank for record-keeping purposes. NCR recently began a marketing push for banks to install NCR check-imaging systems at ATMs.

Banks, however, are not likely to buy into check-imaging products at ATMs without regulatory changes such as those proposed by the Fed. Indeed, even if Congress approves the Check Truncation Act, some bank-ATM owners are leery about investing in check-imaging technology because of the expense and because ATM deposits account for so few ATM transactions.

"Upgrading the ATMs with imaging systems is extremely expensive," says Carol Malicki, senior vice president at Charlotte, N.C.-based First Union National Bank, which is in the process of merging its ATM operations with Winston-Salem, N.C.-based Wachovia Corp.

A typical bank-branch ATM conducts about 5,000 transactions per month, of which about 750 are deposits made by a bank's own customers, says Kasper. About 10% of those deposits are in cash, so no check-imaging is needed. At up to \$1.25 per deposit, a bank currently pays up to \$800 per month per ATM, which includes back-office processing, to offer deposit functions to its own customers.

The question before banks and credit unions is whether developing the infrastructure for ATM check imaging and beaming electronic checks to check issuers is worth the savings, says Malicki.

Besides adding a digital check reader and software to an ATM, which could cost several thousand dollars per machine, there are other expenses. Malicki notes that the substitute checks printed on

the other end of the electronic pipeline must conform to check—processing machinery used by banks, down to the type of ink used for Magnetic Ink Character Recognition lines. "We don't want these image replacement documents to have to be separated" from routinely processed checks, she says.

The measure before Congress does not outline specific standards for printing substitute checks. Those standards currently are being developed by the freestanding X-9 banking—technology standards group, says Walton. However, a substitute check generally would include data on both sides of an imaged check, including the MICR, bank—routing numbers and payee endorsement, he says.

Some financial institutions are considering investing in backroom and ATM check—imaging, in part, to get into the business of issuing substitute checks for financial institutions that want to offer check truncation at ATMs but don't want to make heavy investments in the technology.

Salt Lake City—based Zions Bancorporation is considering offering a full range of check—truncation products, including imaging checks at ATMs, issuing substitute checks for other banks and taking deposits from noncustomers for a surcharge fee at most of the banking company's 450 ATMs. Zions already has created an electronic—deposit product, called Net Deposits, that produces substitute checks using electronically captured data from deposits through proprietary agreements, says Pam Wallace, Net Deposit project manager. Zions has not yet installed an ATM check—imaging system, she says.

The nation's largest ATM owner, Charlotte, N.C.—based Bank of America, also is interested in ATM check imaging and is a key backer of the Check Truncation Act, says Walton. "These banks have started to rationalize the electronification of checks," he says.

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